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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 003079

SIPDIS

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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW
MCC FOR AKIRSCHENBAUM

E.O. 12958: DECL: 11/15/2016
TAGS: [EAID](#) [ECON](#) [EFIN](#) [EINV](#) [BL](#)
SUBJECT: FINANCE AND PLANNING MINISTERS LAY OUT GOB
DEVELOPMENT AGENDA

REF: A. LA PAZ 2831

[1B.](#) LA PAZ 2945
[1C.](#) LA PAZ 3040

Classified By: Ecopol Counselor Andrew Erickson for reason 1.4 (b).

[11.](#) (C) Summary: In a meeting on November 10, Finance Minister Arce told the Ambassador that Bolivia has a positive fiscal balance, but that the government must resolve the inequitable distribution of resources among the central government and regional governments. Arce said that the ministry is "coordinating" with the central bank, implying some interference in bank operations. Arce explained that the government's national development plan seeks to improve health care and education by using the capital generated in the hydrocarbons and mining sectors. He added that the government plans to stimulate microenterprise by providing access to credit, technology, and productive infrastructure through a second-tier state development bank. On November 13, Development Planning Minister Larrazabal told the Ambassador that GOB and donor representatives have formed five working groups to harmonize funding and align it with the national development plan. Larrazabal noted that the GOB is interested in receiving MCC funds and will take the necessary steps to move forward towards a compact. Larrazabal and Arce plan to attend the upcoming IDB meeting in Washington to lobby for debt relief and continued access to concessional funds. Arce told the Ambassador that the government supports the passage of a bill containing money laundering provisions. End summary.

Positive Fiscal Balance

[12.](#) (SBU) Finance Minister Luis Arce told the Ambassador on November 10 that the GOB has a positive overall fiscal balance (ref A), with sub-national governments having a

positive balance of USD 640 million and the national treasury having a near zero balance. He said that the way in which hydrocarbons revenues were distributed among sub-national and national governments must be revised, as the imposition of the direct hydrocarbons tax by the May 2005 law has caused an inequitable distribution of resources, in which the national treasury and non-gas-producing regional governments do not receive sufficient shares of the income. If the distribution system remains the same, Arce predicted that the national treasury would have a 3 percent deficit in 2007. Arce met with the regional governors on November 9 to discuss the divisive issue of redistributing gas revenues, which he said would be difficult to solve (ref B).

¶3. (SBU) Arce attributed the positive fiscal situation to increased tax collection partially due to the government's efforts to broaden the tax base to include businesses such as bus companies. He said that the finance ministry's main goal for 2007 was to eliminate tax exemptions enjoyed by many companies. Arce said that the national government has reactivated public investment, particularly spending related to road construction after the founding of the new road service. (Note: the prior road service was disbanded for corruption. End note.)

Central Bank Independent?

¶4. (C) In response to the Ambassador's expressed concern regarding the independence of the central bank (ref A), Arce said that the finance ministry is "respecting" the bank and "coordinating" with it, (note: implying a lack of

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independence). He said that the international reserves held by the bank had increased by USD 1.2 billion this year because of high mineral and hydrocarbon export prices and remittances. Although the economy was growing, Arce said, the treasury had successfully kept inflation at a low 4 percent (0.9 percent lower than last year) by not putting more bills into circulation.

National Development Plan

¶5. (SBU) Arce explained that the national development plan focused on increasing government access to the capital generated by the mining, hydrocarbons, and electricity sectors to use for health, education, and employment generation. In order to decrease migration to urban areas, the government was seeking to improve life in the countryside by mechanizing agriculture and providing irrigation systems, seeds, electricity, telephones, education, and health care. In urban areas, the government wants to stimulate microenterprise by providing access to credit, technology/modern equipment, and productive infrastructure through a second-tier state development bank. Larrazabal explained that development bank loans would be channeled through existing financial institutions to borrowers. Larrazabal added that the capital generated by the hydrocarbons and mining sectors would be used to diversify the productive sectors and generate sustainable development in the long-term.

Donor Coordination

¶6. (C) Arce mentioned that the vice ministry of public investment and external finance was currently in charge of donor coordination, but that the government was considering forming a Bolivian cooperation agency. The Ambassador told Planning Minister Larrazabal on November 13 that USAID, with USD 85 million in aid budgeted for this year, is supporting

the GOB's development goals. Larrazabal expressed thanks for this support and said that he has easily achieved agreements with USAID in the past. Larrazabal explained that GOB and donor representatives have formed five working groups -- productive development, millennium development goals, democracy, macroeconomic stability, and organization -- which have met a few times to harmonize donor funds and align them with the national development plan. The goal is to find out how much donors plan to commit, how much the government has to commit, and determine how large the gap will be to finance the development plan. Larrazabal hoped that donors would present draft cooperation agreements by year-end and that Bolivia could hold a consultative group meeting with donors in Brussels by April 2007.

MCC

¶ 17. (SBU) The Ambassador noted to Minister Larrazabal that it was positive that Bolivia had named a national coordinator for working with the Millennium Challenge Corporation (MCC) and that Bolivia had been deemed eligible to seek funding by MCC in 2007. He added that it was important for the coordinator to form a technical team to move the process forward. Larrazabal said that the government was interested in obtaining MCC funds and would take the necessary steps to go forward with a compact.

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IDB Debt Relief

¶ 18. (SBU) Planning Minister Larrazabal and Finance Minister Arce will attend the upcoming Inter-American Development Bank (IDB) meeting in Washington, according to Arce. Bolivia is requesting debt forgiveness, refunding of the concessional loan fund, and future access to credit. Minister Larrazabal told the Ambassador that although Bolivia hoped to rely on its own resources and be independent, it needed liquidity, and had thus joined other HIPC (highly indebted poor country) countries in a meeting in Haiti last week to lobby for IDB debt forgiveness without conditions and with access to future financing.

GOB Supports Anti-Money Laundering Bill?

¶ 19. (SBU) The Ambassador encouraged Finance Minister Arce to provide input to the working group on the GOB's draft anti-corruption law, which contains provisions about money laundering and the financial investigation unit which will be under the control of the finance ministry (ref C). Arce evinced the lack of coordination within the executive branch, claiming that the draft bill includes terrorism finance, which it does not, despite encouragement by the Embassy to include it. (Note: the working group is led by President Morales' Legal Adviser Eusebio Gironda. Econoff participates in the group. Participants from the finance ministry have attended in the past, and draft money laundering legislation produced by finance was taken into consideration by Gironda. However, the finance ministry has not played as active of a role as it should have in the process. End note.)

¶ 10. (C) Comment: GOB efforts to change the distribution of hydrocarbons revenue -- and take away "entitled" resources from the eastern producing regions -- are likely to stir up conflict during the coming year. According to donors, the coordination process mentioned by Larrazabal is not functioning well (ref A), and the GOB is unlikely to get the commitments that it needs to finance its national development plan. End comment.

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